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SUBJECT: PLAYING POLITICS WITH PRIVATIZATION

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This cable was coordinated with Embassy Ankara.

¶1. (SBU) Summary: A political and media furore has swirled in recent days around the controversial 49-year lease for Istanbul's Galata port on a prime stretch of waterfront overlooking the old city. Critics point out that the winning bid, announced at USD 4.3 billion, actually has a real present value of only USD 240 million. Tangled up in the controversy are allegations of malfeasance in the sale of 14.76 percent of national refiner Tupras earlier this year on the Istanbul stock exchange. The sale was made without public notice and the winning bidder (thought to be Israel's Ofer Group, a principal shareholder in Royal Caribbean Cruises and part of the winning consortium for the port) stands to make USD 800 million on the transaction. Government officials, up to and including Prime Minister Erdogan (who himself first denied meeting Ofer, but then conceded that he had done so), reject the criticism of both deals and stress that they were carried out properly. The point-counterpoint highlights, however, the political sensitivities surrounding privatization in Turkey. End Summary.

¶2. (SBU) Sour Grapes?: Initial questions about the recent flurry of deals involving Israel's Ofer Group resulted from the profit it stands to realize from its apparent investment in the Turkish refinery Tupras in March. At that time, Turkey's Privatization Administration (PA) was given permission by the High Privatization Board to realize YTL 1 billion (approximately USD 750 million) from its portfolio. It finally settled on a package of deals that included the sale of a 14.76 percent stake in Tupras through a private placement to six investment funds, using Istanbul's Global Securities as intermediary. The funds are thought to have been acting on behalf of the Ofer Group (though this remains unconfirmed). This month's block sale by the Privatization Administration of a controlling share of the refinery brought a stunning increase in the company's valuation to USD 8.1 billion (reftel), leaving Ofer with a profit of USD 800 million.

¶3. (SBU) Critics in the press charged that the public was not properly informed about the process whereby the shares were sold in March. The drumbeat was subsequently picked up by opposition politicians, who saw an opportunity to tarnish the government. Contacts in Istanbul's financial community note that such private placements have been used in the past, but do create an appearance of impropriety. At least one notes that he would have loved to have had an opportunity to participate in the transaction, given that it offered the opportunity to purchase a block of shares at a discount, at a time when the stock was rising in value. Locally, only Global Securities seems to have been approached by the PA, though Global's owner Mehmet Kutman has said the PA reached out to a number of international brokers, and only turned to Global when it deemed that the concessions and guarantees that the international firms were seeking were excessive.

¶4. (SBU) For their part, neither Turkey's Capital Markets Board (SPK), nor the Stock Exchange itself, appears to have been happy with the way the transaction was carried out. The SPK told the PA and the Stock Exchange that the transaction should have been publicly announced, but did not move to stop it (an SPK investigation is ongoing). The Exchange complained that the PA had not waited the required three days after providing notification of the sale before completing the transaction, but the PA has subsequently said that it is not subject to this requirement. Defenders of the deal note that use of discounts for such block sales is standard, and that the March sale was hailed for the premium it provided over the price offered in an earlier 2004 attempt to privatize Tupras that Turkish courts had struck down. They remind us that no one in March had an inkling of what the company would sell for in September. Indeed, until the results were announced, many analysts did not expect the company to achieve its market cap, much less so dramatically exceed it (USD 8.1 billion versus a market cap of 4.5 billion.)

¶5. (SBU) Galataport: The controversy deepened when the Ofer

Group, together with a number of Turkish and foreign partners, including Global Securities, won the tender to operate Istanbul's historic but run down cruise ship terminal (Galataport) for 49 years for USD 4.3 billion. Observers were initially astounded at the high price the group paid. That sentiment turned around, however, when "Sabah" newspaper published the 49-year payment plan for the lease, showing that only USD 36 million is due in its first ten years, and that its present value is only USD 244 million. A range of critics in the press and opposition, as well as business, then emerged, criticizing the tender and seeking its annulment. Among them was Koc Group Honorary President (and former Chairman) Rami Koc, who told the press that if he had known of the payment conditions in the tender, he personally would have entered a bid. On October 3, a labor union went to court to invalidate the deal, arguing that the build-operate-transfer model used by the government was inappropriate for a cruise ship terminal. Questions are also swirling around exactly what sort of development the winning bidders will be allowed to create on the sensitive waterfront site.

¶6. (SBU) Resolute: Despite the criticism, the government has stuck to its guns and staunchly defended the transaction. Prime Minister Erdogan, in a speech on October 1 in Abant, noted that the Ofer group has extensive experience in the tourism sector, and will bring valuable expertise to the project. Transportation Minister Binali Yildirim noted that the port earned only USD 5 million last year, and that even if the losing bids (which came in at only one-third of what the Ofer Group offered) had been accepted, the government would realize a profit. He noted that the tender process had unfolded over three years, and had been widely publicized in Turkish newspapers. "We couldn't send out seventy million letters," he said sarcastically. The Koc Group's current chairman Mustafa Koc also came to the government's aid (and implicitly rebuked his father), by noting that the tender was "transparent" and accessible to all who were interested. Despite the controversy, the Privatization board okayed the process on September 27, sending it to Finance Minister Unakitan for his approval.

¶7. (SBU) Did he, Didn't He?: Briefly fanning the flames of the debate were contradictory statements by Prime Minister Erdogan about whether he had met Sami Ofer. Initially he denied such a meeting, however within hours his office issued a correction admitting that such a meeting had occurred. The Prime Minister subsequently stressed that he would meet with any and all, both foreign and domestic, who are interested in investing in Turkey. "I have met, am meeting, and will continue to meet" with such individuals, he said defiantly. The fact of the meeting, however, was seized on by opposition politicians in the Cumhuriyet Halk Partisi (CHP) and the Dogru Yol Partisi (DYP) to charge that the government had engaged in corruption and insider trading. The CHP subsequently announced that it would submit a motion of censure to the National Assembly.

¶8. (SBU) Controversial Broker: An additional point of controversy has been the identity of Ofer's Turkish partner, Global Securities' Chairman Mehmet Kutman, the cousin of former Prime Minister Mesut Yilmaz. Yilmaz himself remains on trial on corruption charges, and newspapers and others have sought to insinuate that Kutman has succeeded in building a relationship with the AK party similar to that he formerly enjoyed with Yilmaz's ANAP party.

¶9. (SBU) Anti-semitism: Some have also seen a tinge of anti-semitism in the debate, pointing to the fact that virtually every article about the controversy has referred to Ofer either as Jewish or Israeli, something that is uncharacteristic of articles concerning other transactions. Interestingly, however, this has not been as true of the country's Islamist press, which has largely avoided mentioning Ofer's background. Instead they have staunchly defended the government against the corruption accusations, noting sarcastically, for instance, that the "secret" Galataport transaction was widely advertised in papers that have since criticized the deal.

¶10. (SBU) Comment: The Ofer debate highlights the range of issues opponents seize on when they seek to challenge privatization and seek to score points off the government. From questioning the price at which the transaction occurred, to seeking to question the transaction on nationalistic grounds, opponents are not shy about exploiting every opening they see. State Minister Babacan suggested another force that may be at play as well: disappointment in Turkish business circles that foreign interest is driving prices higher and preventing them from acquiring assets "on the cheap" as they have in the past. In this case, however, at least as regards the Tupras sale, the murky manner in which the transaction was handled has given critics an opening to exploit. End Comment.
JONES